S. H. KRESS & COMPANY

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CORPORATION FILE

Kress Store
Phoenix, Arizona

Annual Report - 1948

THE KRESS STORE IN PHOENIX, ARIZONA

On November 22, 1913 the Company opened its store in Phoenix. At that time Phoenix had a population of approximately 14,000. Today Phoenix is a rapidly growing city with a population estimated at 110,000.

To match the growth of the city, and to accommodate the increasing volume of business, the Kress store was enlarged and modernized in 1924. By 1933 this store was no longer adequate and in that year the present store, which is shown on the front cover of this report, was constructed and opened to the public. After more than fifteen years of operation this store remains one of the outstanding buildings of its type in the Southwest.

S. H. KRESS & COMPANY

Buying-Executive Offices
114 FIFTH AVENUE, NEW YORK 11, N. Y.

OFFICERS

S. H. KRESS	*Chairman of the Board*
R. H. KRESS	*Vice-Chairman of the Board*
O. N. BIRKLAND	*President*
H. S. DAVIS	*Vice-President*
E. F. SIBBERT	*Vice-President*
C. G. TRAMMELL	*Vice-President*
C. H. OWEN	*Secretary and General Counsel*
C. M. FUNK	*Treasurer*
A. J. OEHLER	*Controller*
W. M. WEAVER	*Assistant Treasurer*
W. F. DEMPSEY	*Assistant Secretary*
A. F. GUERBER	*Assistant Secretary*

DIRECTORS

S. H. KRESS

R. H. KRESS	H. S. BOWERS	H. S. DAVIS
O. N. BIRKLAND	J. M. HANCOCK	O. V. W. HAWKINS

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Registrar: CHEMICAL BANK & TRUST COMPANY, NEW YORK, N. Y.

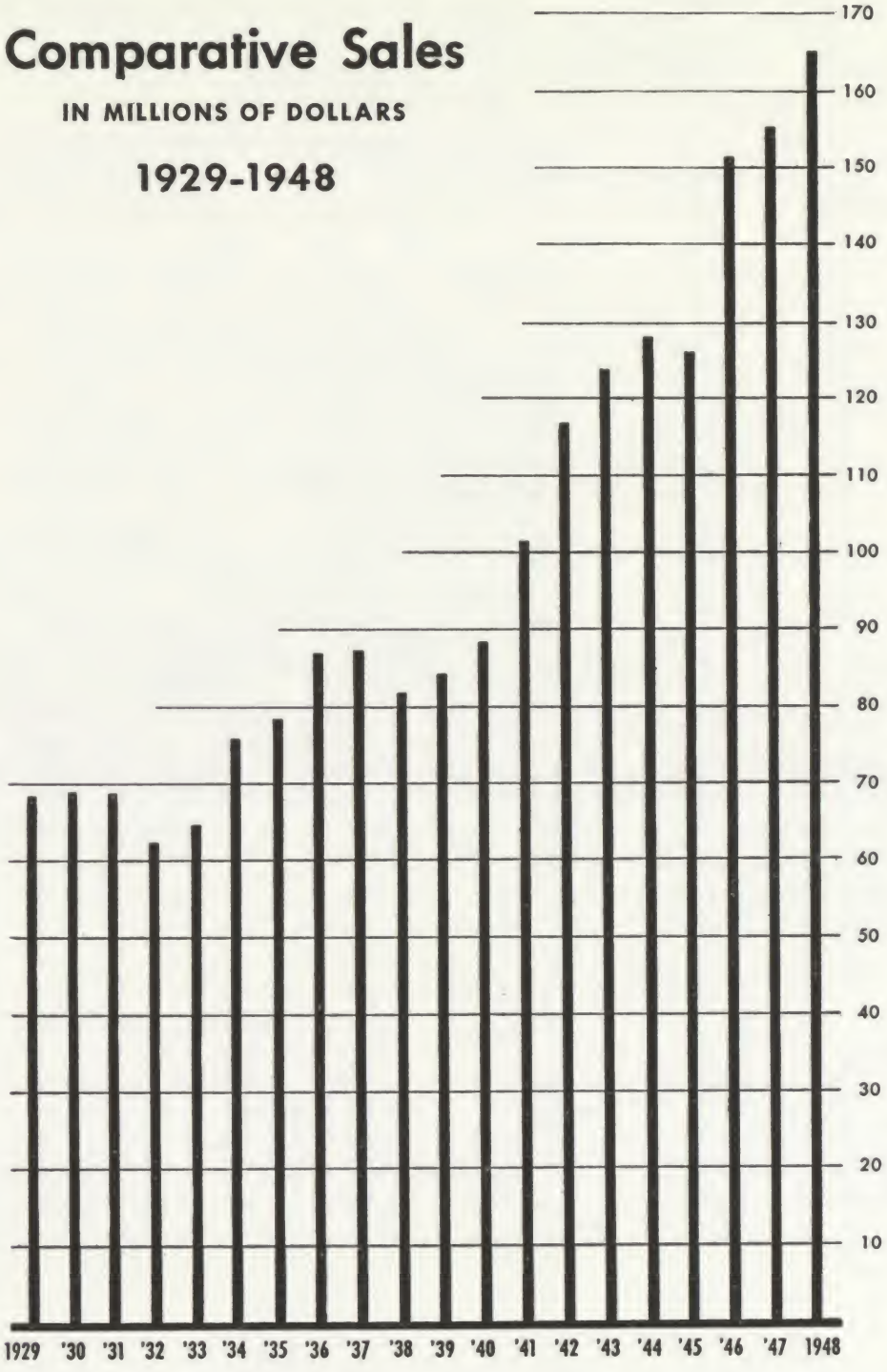
Operations at a Glance

	Amount 1948	Cents Per Dollar 1948	1947
We received:			
From sales to customers	$165,366,617	99.6	99.6
From others for rental of property, interest and gain from sale of assets	631,602	.4	.4
Total amount received	$165,998,219	100.0	100.0
We paid out:			
For merchandise, rent and operating expenses other than taxes, wages and salaries and employe benefits	$113,179,980	68.2	67.5
Taxes paid to Federal, state, county, and municipal governments (not including taxes paid by the Company for Social Security)	10,385,126	6.3	6.7
Wages and salaries and other employe benefits paid to:			
All employes other than officers $27,894,974		16.8	16.5
Officers 558,308		.3	.4
Retirement pension and group life insurance contributions 542,934		.3	.4
Social Security taxes 598,319		.4	.4
Total	29,594,535	17.8	17.7
Dividends paid to stockholders	9,994,615	6.0	5.3
Total paid out	$163,154,256	98.3	97.2
Balance:			
Earnings retained in the business for future needs (principally for modernization of existing stores and construction of new stores)	2,843,963	1.7	2.8
Total paid out and retained in the business	$165,998,219	100.0	100.0

Comparative Sales

IN MILLIONS OF DOLLARS

1929-1948



January 31, 1949

To the Stockholders of S. H. Kress & Company:

THE ANNUAL REPORT of our Company for the year 1948, including comparative statements of earnings and financial condition certified by Messrs. Price, Waterhouse & Co., independent public accountants appointed by the Board of Directors, is submitted herewith.

Following the practice started in 1947, there is again included in our report a simplified statement of operations for 1948. For comparison 1947 receipts and disbursements are shown in cents per each dollar received from sales and other sources.

SALES

In 1948 sales increased to an all-time high of $165,366,617, which is an increase of $10,006,717 or 6.4% as compared with 1947. The eight new stores opened during the year accounted for slightly less than 1% of the total sales, the balance of the increase having been contributed by stores opened in prior years. As the new stores were in operation for less than an entire year the full effect of the increase in the number of stores will not be felt until 1949.

EARNINGS

Net earnings for the year after providing for Federal income taxes amounted to $12,838,578 or $5.46 on each share of common stock outstanding. The 1947 net earnings amounted to $12,672,077 and were equal to $5.39 on each share of common stock outstanding.

The fact that net earnings did not keep pace with the increase in sales volume was due to the continued upward trend in operating expenses and to lower profit margins on merchandise sold. The continued increase in the cost of operations is a subject of concern and is receiving the full attention of the management of our Company.

In determining the net earnings for 1948 and previous years, our Company has followed the accepted practice of computing depreciation on buildings, leasehold improvements, and fixtures and equipment, on original cost as required by the U.S. Treasury Department for tax purposes and not on current replacement cost. If the current high replacement costs continue to prevail, the amount of depreciation charged to current operations will not be sufficient to replace the assets as they wear out. Had depreciation for 1948 been based on replacement costs, it is estimated that the net earnings of the Company would be approximately $1,300,000 less than the amount actually reported.

DIVIDENDS

During 1948 the Company paid dividends totalling $4.25 per share of common stock. The dividends paid included extra dividends totalling $2.25 per share.

WAGES AND SALARIES

In 1948 our Company paid $28,453,282 in wages and salaries to all employes, including officers and directors, an increase of 7.9% as compared with 1947.

Our Company has continued the practice established in previous years, of making special payments to employes, other than managers and executives, for the usual Christmas bonus and in recognition of length of service and outstanding accomplishment. For 1948 these distributions to employes amounted to a total of $512,468 as compared with $439,812 in 1947.

Payments of $542,934 were also made by the Company for premiums on policies of life insurance on its employes under the Group Life Insurance Plan and for the maintenance of the Company's Employe Retirement Pension Plans. Every employe with the required length of service is eligible to participate in these plans.

The Company's share of Unemployment Insurance and Federal Old Age Benefits taxes paid for the benefit of employes amounted to $598,319 in 1948.

As will be noted from the statement "Operations at a Glance" on page two of this Report, from every dollar received by the Company from sales and other sources it paid out 17.8¢ for wages, salaries and other employe benefits. This compares with 17.7¢ in 1947.

TAXES

Federal income taxes for 1948 amounted to $7,800,000 compared with $7,900,000 for 1947. All direct taxes paid or accrued by the Company, other than for Unemployment Insurance and Federal Old Age Benefits, amounted to $10,385,126.

As the agent of many different municipal, state and Federal taxing authorities, excise and sales taxes amounting to $4,818,872 were collected by Kress stores from customers and remitted to the proper authorities, as required by law.

The taxes referred to in the preceding paragraphs amounted to 9.2¢ on each dollar's worth of merchandise sold during the year.

STOCK OWNERSHIP

On December 31, 1948, the common stock of our Company was owned by 8,880 shareholders as compared with 8,611 shareholders on December 31, 1947. At the end of the year a total of 1,200 employes were shareholders of the Company; this compares with 1,146 at the end of 1947.

INVENTORY

Inventories of merchandise on hand and in transit on December 31, 1948, amounted to $23,722,146 as compared with $21,690,382 at the end of the previous year. As a result of intensive effort made by the management of

our Company during the year to dispose of all undesirable merchandise, the inventories at the end of the year consisted of a balanced stock of clean, fast-selling merchandise. The Company has followed its usual practice of valuing merchandise on hand at cost or market, whichever is lower.

The continued improvement in deliveries by manufacturers has enabled us to keep open orders at a relatively low level.

STORES IN OPERATION—FUTURE EXPANSION

At the end of the year the Company had 250 stores in operation in 29 states and the Territory of Hawaii, compared with 243 stores at the end of 1947. During the year new stores were opened at the following locations:

Summit, N. J.	Harrisburg Blvd., Houston, Tex.
Monroe, La.	Tyler, Tex.
Baytown, Tex.	Crenshaw Blvd., Los Angeles, Calif.
Corsicana, Tex.	84th Street, Los Angeles, Calif.

A new store was opened in Greenville, Miss., to replace the store previously operated in that city. The store in Elizabeth, N. J., was closed during the year. Stores in Key West, Fla., and Oklahoma City, Okla., were enlarged and remodelled.

Our plans for future expansion include 20 new stores to be constructed on locations acquired in recent years, 3 new buildings to be constructed to replace existing stores, and the modernization of some of our existing stores. Due to the present high construction costs we are carefully scrutinizing each project and authorizing only such work as is necessary at this time.

PERSONNEL

After serving the Company for 39 years in various capacities W. L. Baker retired from the presidency in November, upon reaching retirement age. O. N. Birkland, who has had 32 years' service with the Company, recently as merchandising vice-president, was elected president.

The management of our Company wishes to express its appreciation to the 22,841 Kress men and women whose efforts were so largely responsible for the success of the Company in 1948. We also desire to acknowledge the unremitting efforts of suppliers of merchandise and services from whom we received such fine cooperation.

By order of the Board of Directors.

S. H. Kress

Chairman

S. H. KRESS & COMPANY

STATEMENT OF EARNINGS

	Year ending December 31, 1948	1947
GROSS SALES	$165,366,617	$155,359,900
Deduct:		
Cost of merchandise sold and operating expenses	$142,772,692	$132,823,906
Provision for depreciation and amortization	2,115,153	1,977,959
Provision for employes' retirement pension plans	471,796	421,220
Provision for past service benefits under supplemental pension plan	—	139,849
	$145,359,641	$135,362,934
	$ 20,006,976	$ 19,996,966
Add:		
Rentals received from tenants	$ 438,857	$ 380,151
Gain on sales of securities	—	47,656
Interest received (net)	192,745	147,304
	$ 631,602	$ 575,111
	$ 20,638,578	$ 20,572,077
Deduct:		
Provision for Federal income taxes	7,800,000	7,900,000
NET EARNINGS FOR THE YEAR	$ 12,838,578	$ 12,672,077
Deduct:		
Dividends paid (1948—$4.25 per share; 1947—$3.50)	9,994,615	8,230,859
EARNINGS RETAINED FOR USE IN THE BUSINESS	$ 2,843,963	$ 4,441,218

S. H. KRESS & COMPANY

STATEMENT OF

ASSETS	*December 31, 1948*	*1947*
CURRENT ASSETS:		
Cash	$ 14,058,661	$ 14,867,428
U. S. Government securities, at amortized cost (market value at December 31, 1948—$8,068,181)	8,068,516	8,889,533
Sundry debtors	82,547	41,522
Inventories of merchandise, including merchandise in transit, at cost or market, whichever is lower	23,722,146	21,690,382
Total current assets	$ 45,931,870	$ 45,488,865
OTHER ASSETS:		
Loans and advances to landlords and miscellaneous notes receivable	$ 181,923	$ 319,557
Prepaid insurance premiums, rents, etc.	711,328	795,063
Total other assets	$ 893,251	$ 1,114,620
CAPITAL ASSETS:		
Fixtures and equipment, at cost	$ 17,150,170	$ 16,131,612
Less—Provision for depreciation	12,927,013	12,393,466
	$ 4,223,157	$ 3,738,146
Leasehold improvements, at cost	$ 17,797,924	$ 16,858,746
Less—Provision for amortization	9,165,260	9,081,983
	$ 8,632,664	$ 7,776,763
Land and buildings owned in fee, at cost in cash and capital stock	$ 42,853,958	$ 41,443,954
Less—Provision for depreciation	11,393,104	10,606,915
	$ 31,460,854	$ 30,837,039
Good-will, leaseholds, etc.	$ 1	$ 1
Total capital assets	$ 44,316,676	$ 42,351,949
	$ 91,141,797	$ 88,955,434

FINANCIAL CONDITION

LIABILITIES	*December 31, 1948*	*1947*
CURRENT LIABILITIES:		
Accounts payable—trade creditors	$ 701,087	$ 1,146,564
Accounts payable—merchandise in transit	1,238,348	997,247
Accrued salaries, expenses, taxes, etc., including taxes withheld	5,672,848	5,059,350
Provision for Federal taxes on income (less U. S. Treasury tax notes: 1948, $5,500,000; 1947, $4,500,000)	3,377,139	4,443,861
Total current liabilities	$ 10,989,422	$ 11,647,022
CAPITAL:		
Capital stock:		
Special preferred stock—6% cumulative— Authorized—1,000,000 shares of $10 each All issued shares reacquired for treasury		
Common stock without par value— Authorized—2,678,787 shares Issued—2,357,574 shares	$ 48,511,253	$ 48,511,253
(Common stock reserved for sale to employes—68,434 shares)		
Accumulated earnings retained for use in the business	$ 31,759,639	$ 28,915,676
Less—Cost of 5,900 shares of common stock reacquired	118,517	118,517
	$ 31,641,122	$ 28,797,159
Total capital stock and accumulated earnings	$ 80,152,375	$ 77,308,412
	$ 91,141,797	$ 88,955,434

ACCOUNTANTS' REPORT

PRICE, WATERHOUSE & CO.

56 PINE STREET
NEW YORK 5

January 31, 1949

To the Stockholders of S. H. Kress & Company:

We have examined the statement of financial condition of S. H. Kress & Company as of December 31, 1948 and the related statement of earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the accompanying financial statements present fairly the financial position of S. H. Kress & Company at December 31, 1948, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price, Waterhouse & Co.

KRESS STORES

ALABAMA (12)
- Anniston
- Bessemer
- Birmingham
- Dothan
- Ensley
- Gadsden
- Huntsville
- Mobile
- Montgomery
- No. Birmingham
- Selma
- Tuscaloosa

ARIZONA (5)
- Douglas
- Nogales
- Phoenix
- Tucson
- Yuma

ARKANSAS (6)
- Blytheville
- Fort Smith
- Helena
- Hot Springs
- Little Rock
- Pine Bluff

CALIFORNIA (43)
- Alhambra
- Anaheim
- Bakersfield
- Berkeley
- Calexico
- El Centro
- Eureka
- Fresno
- Glendale
- Huntington Park
- Inglewood
- Long Beach
- Los Angeles (12)
- Modesto
- Oakland
- Pasadena
- Pomona
- Richmond
- Riverside
- Sacramento
- San Bernardino
- San Diego
- San Fernando
- San Francisco (2)
- San Jose
- San Pedro
- Santa Ana
- Santa Barbara
- Santa Monica
- Santa Rosa
- Stockton

COLORADO (7)
- Boulder
- Colorado Springs
- Denver
- Grand Junction
- Greeley
- Pueblo
- Trinidad

FLORIDA (13)
- Daytona Beach
- Jacksonville (2)

FLORIDA (13) (Cont'd)
- Key West
- Lakeland
- Miami
- Miami Beach
- Orlando
- Pensacola
- St. Petersburg
- Sarasota
- Tampa
- Ybor City

GEORGIA (14)
- Albany
- Americus
- Athens
- Atlanta (2)
- Augusta
- Brunswick
- Columbus
- La Grange
- Macon
- Rome
- Savannah
- Valdosta
- Waycross

HAWAII (4)
- Hilo
- Honolulu
- Lihue
- Wailuku

IDAHO (3)
- Boise
- Idaho Falls
- Pocatello

ILLINOIS (2)
- Cairo
- Rockford

KANSAS (13)
- Arkansas City
- Chanute
- Coffeyville
- Emporia
- Fort Scott
- Hutchinson
- Independence
- Iola
- Lawrence
- Parsons
- Pittsburg
- Salina
- Wichita

KENTUCKY (3)
- Ashland
- Hopkinsville
- Winchester

LOUISIANA (6)
- Alexandria
- Baton Rouge
- Lake Charles
- Monroe
- New Orleans
- Shreveport

MISSISSIPPI (8)
- Biloxi
- Greenville
- Hattiesburg
- Jackson
- Laurel
- Meridian
- Natchez
- Vicksburg

MISSOURI (6)
- Carthage
- Jefferson City
- Moberly
- Nevada
- Trenton
- Webb City

MONTANA (2)
- Billings
- Great Falls

NEW JERSEY (2)
- East Orange
- Summit

NEW MEXICO (1)
- Albuquerque

NEW YORK (4)
- New York City (4)

NORTH CAROLINA (13)
- Asheville
- Charlotte
- Durham
- Fayetteville
- Gastonia
- Goldsboro
- Greensboro
- High Point
- New Bern
- Rocky Mount
- Salisbury
- Wilmington
- Winston-Salem

OHIO (1)
- Youngstown

OKLAHOMA (15)
- Ardmore
- Bartlesville
- Blackwell
- Chickasha
- Enid
- Guthrie
- Lawton
- McAlester
- Muskogee
- Oklahoma City
- Okmulgee
- Ponca City
- Sapulpa
- Shawnee
- Tulsa

OREGON (1)
- Portland

PENNSYLVANIA (1)
- Altoona

SOUTH CAROLINA (6)
- Anderson
- Charleston
- Columbia
- Florence
- Spartanburg
- Sumter

TENNESSEE (10)
- Bristol
- Chattanooga
- Elizabethton
- Jackson
- Johnson City
- Kingsport
- Knoxville
- Memphis
- Nashville (2)

TEXAS (35)
- Amarillo
- Austin
- Baytown
- Beaumont
- Brownsville
- Corpus Christi
- Corsicana
- Dallas (2)
- Del Rio
- Denison
- Eagle Pass
- El Paso
- Fort Worth
- Gainesville
- Galveston
- Greenville
- Harlingen
- Hillsboro
- Houston (3)
- Laredo
- Longview
- Lubbock
- Paris
- Port Arthur
- San Antonio (2)
- Sherman
- Texarkana
- Tyler
- Waco
- Waxahachie
- Wichita Falls

UTAH (3)
- Ogden
- Provo
- Salt Lake City

VIRGINIA (1)
- Roanoke

WASHINGTON (10)
- Aberdeen
- Bellingham
- Everett
- Seattle (3)
- Spokane
- Tacoma
- Wenatchee
- Yakima

TOTAL—250 STORES IN 29 STATES AND THE TERRITORY OF HAWAII

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